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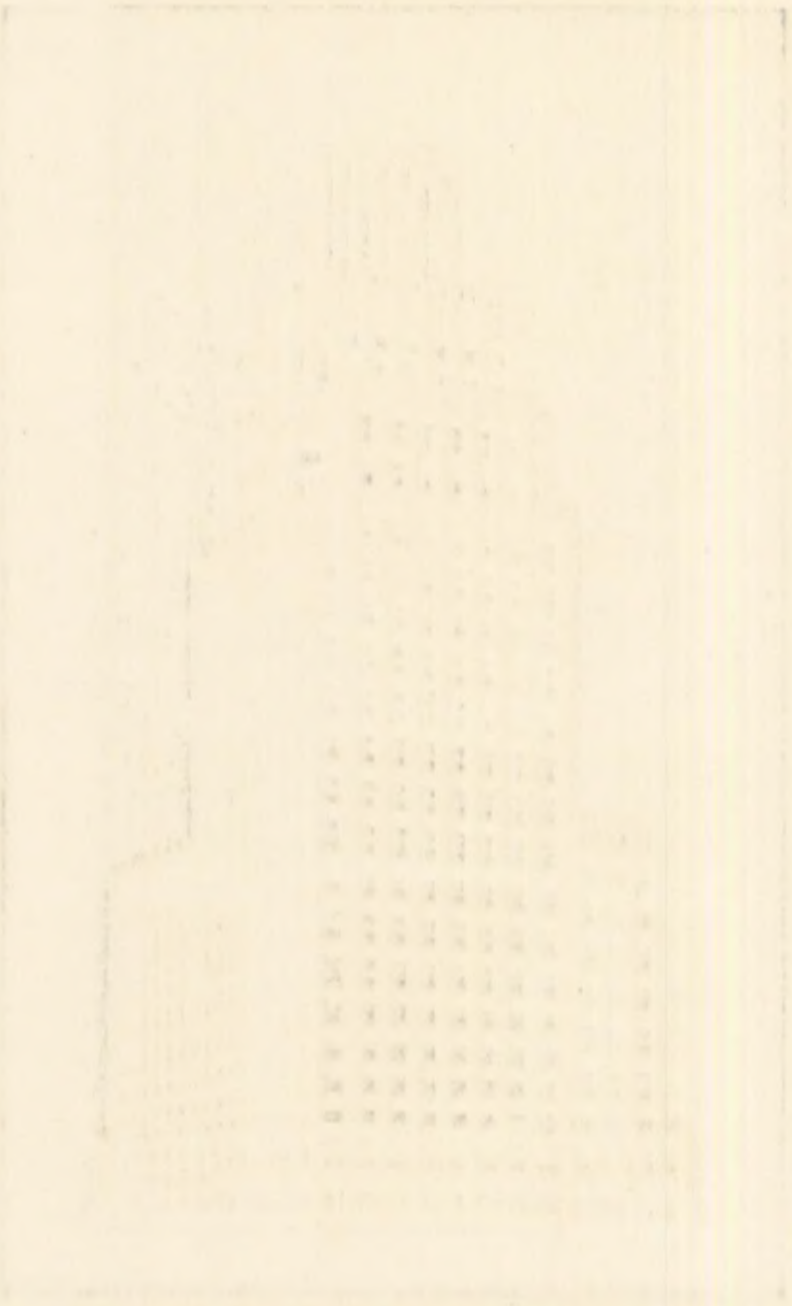
R.J. Reynolds Tobacco Company

Winston-Salem, N.C.

1875 1951

ANNUAL REPORT 1951



R J Reynolds
Tobacco Company

Comparative Summary of Financial Data

Sales, Earnings and Dividends

	1951	1950
Net Sales	$814,216,968	$759,856,001
Net Earnings	32,117,301	40,258,002
Net Earnings as a percentage of Net Sales	3.94%	5.30%
Earnings per share on common stocks *before* taxes on income*	$ 8.92	$ 7.50
Taxes on income per share of common stocks*	6.00	3.77
Net Earnings per share on common stocks*	2.92	3.73
Dividends per share on common stocks	2.00	2.00
Dividends on Preferred Stock	2,934,000	2,934,000
Dividends on common stocks	19,715,714	19,714,748

*Based on 10,000,000 shares.

Financial Position at Year End

Total Assets	$577,885,972	$553,997,157
Current Assets	540,646,045	518,122,816
Current Liabilities	127,752,383	108,331,155
Net Current Assets—Working Capital	412,893,662	409,791,661
Real Estate, Machinery and Equipment —net	32,751,761	31,611,618
Funded Debt	135,000,000	140,000,000
Capital Stock	175,000,000	175,000,000
Earnings Retained for requirements of the business	140,133,589	130,666,002

R. J. REYNOLDS TOBACCO COMPANY
Winston-Salem, North Carolina

TO THE STOCKHOLDERS:

Sales for the past year reached a new high, amounting to $814,216,968, exceeding sales for 1950 by $54,360,967. Shipments of cigarettes for the year were the greatest of any year in the Company's history. In line with the trend in the industry, shipments of smoking and chewing tobaccos were somewhat less than in the preceding year. CAMEL Cigarettes, PRINCE ALBERT Smoking Tobacco and DAYS WORK Chewing Tobacco continued to lead in sales in their respective fields.

Net earnings for 1951 amounted to $32,117,301 and were equivalent to 3.94% of sales. On the basis of the 10,000,000 issued shares of common stocks, net earnings for the year, after deduction of dividends on Preferred Stock, amounted to $2.92 per share. In 1950, the net earnings were $40,258,002 and equaled 5.30% of sales. The decrease in net earnings of $8,140,701, in spite of much larger sales, was due entirely to the recent increases in Federal taxes on income. The accrual of taxes on income, both Federal and state, for 1951 was $60,060,354 and exceeded the similar accrual for 1950 by $22,339,465.

Taxes on Income Since the commencement of hostilities in Korea, the Federal tax burden on income of corporations has been drastically increased by three separate tax Acts—the Revenue Act of 1950, the Excess Profits Tax Act of 1950 and the Revenue Act of 1951. The serious effect of increased income taxes on the Company's net earnings is graphically portrayed on page 13 of this report where there is set forth a chart showing for each of the years 1939 through 1951, on a per share of common stocks basis, the Company's net earnings and taxes on income. It will be particularly noted that for the year just closed the Company's taxes on income amounted to $6.00 per share of common stocks, or more than twice the net earnings per share. It will also be noted that in none of the thirteen years covered by the chart, which of course includes all the years of World War II, was the income tax burden on this Company as great as it was in 1951.

Dividends Dividends paid on common stocks in 1951 amounted to $2.00 a share, the same as in the previous year, and consisted of four quarterly dividends each in the amount of 50 cents. Dividend payment dates in the past year were March 5, June 5, September 5 and December 5.

Prices of Products As of November 1, 1951 the Federal excise tax on cigarettes was increased from $3.50 to $4.00 a thousand and the Federal excise tax on smoking and chewing tobaccos was decreased from 18 cents to 10 cents a pound. Under the new rate, the Federal excise tax on cigarettes amounts to 8 cents for a package of 20 cigarettes, the increase in the rate amounting to 1 cent a package. As permitted

by the Office of Price Stabilization, the Company increased the list price of its cigarettes by 56.6 cents a thousand which, after the usual discounts of 10% and 2%, was sufficient, except for a very small fraction, to reimburse the Company for the increase in the Federal excise tax rate.

For some time the Office of Price Stabilization has been engaged in a study of prices in the cigarette industry. It is hoped that as a result of this study the Company may be permitted to increase the prices for its cigarettes to take care of rising expenses.

Leaf Tobacco Prices The average price paid by the Company for its acquisitions of flue-cured tobacco of the 1951 crop was the highest in history. Sale of the 1951 burley tobacco crop is still in progress, but on the basis of purchases by the Company through January 12, 1952, at which time approximately 80% of the estimated crop had been sold, the average cost for this tobacco also establishes a new high record.

Current Assets and Liabilities Inventories of the Company, consisting principally of leaf tobaccos, at the year end amounted to $495,691,499, as against $475,836,137 at the end of 1950. Total current assets, including inventories, amounted to $540,646,045 and were equivalent to $4.23 for each $1 of current liabilities, which aggregated $127,752,383.

Included in current liabilities are bank loans of $55,500,000 made from the Company's depositary banks under a credit agreement which runs through June, 1955. Similar loans at the end of 1950 amounted to $56,500,000. During the past year the Company paid off all bank loans prior to the opening of the flue-cured tobacco markets in July and made no borrowings from banks until early in October, when the flue-cured tobacco marketing season was well advanced.

Plants and Other Fixed Assets Construction has been commenced on a new research laboratory and an additional processing plant in Winston-Salem and it is expected that both of these buildings will be completed within the current year. The new research laboratory will, it is believed, give the Company the most modern research facilities in the industry, thus better enabling the Company to carry forward its expanding research program. Through the years the Company has been actively engaged in research and this has resulted in very substantial reduction of operating costs. In view of continuing increased costs it is recognized that research activities will take on an ever-increasing importance.

During the year the additions made to the Company's plant and equipment totaled $3,591,519 and the amount of depreciation charged was $2,166,624. The net amount at which the Company's real estate, machinery and equipment was carried at the end of the year was $32,751,761, as against $31,611,618 at the end of 1950.

The valuable brands, trade-marks and good will of the Company were carried as before in the nominal amount of $1.

Employees At the year end the Company had 11,469 regular employees and 5,212 seasonal employees. A general wage increase, up to the amounts allowable by the regulations of the Wage Stabilization Board, was made in September.

On the basis of the average number of employees throughout the year,

including seasonal employees, the Company's assets amounted to an average of about $40,600 for each job furnished employees, there being five stockholders of record for each employee.

One factor that has contributed much through the years to the efficient operation of the Company is the low rate of turnover among its employees. Of the regular employees about 39% have a continuous service record of more than 20 years. About 76% of the regular employees have been with the Company continuously for at least 5 years.

Appreciation is here expressed to employees for their outstanding accomplishments during the past year. The record production and sales of the Company during the year would not have been possible without the cooperation, interest, diligence and efficiency shown by the employees throughout the entire organization.

Stockholders Stockholders of record on December 31, 1951 totaled 71,734, consisting of 60,445 holding common stocks and 11,289 holding Preferred Stock. Under the amendment to the Company's Certificate of Incorporation effective June 29, 1949, Common Stock is exchangeable at the rate of one share of Common Stock for one and one-fourth shares of New Class B Common Stock. At the end of the year 233,878 shares of Common Stock had been exchanged for New Class B Common Stock pursuant to this exchange option.

Promotional Activities During the year the Company continued the promotion of its products through intensive advertising and sales activities. With respect to CAMEL Cigarettes the public was asked to prove for themselves the high quality of the product by making their own "CAMEL 30-Day Mildness Test"—smoking only CAMELS for 30 days—a thorough test of cigarette mildness, and thus learning why CAMEL leads all other brands by billions. Advertising by the medium of television was intensified and advertising in other media, particularly radio, magazines and newspapers, was continued.

For many years the Company has maintained a program of conducted tours through its manufacturing plants in Winston-Salem. This has proven to be a most effective way of interesting the public in the Company's products and acquainting visitors with the rigid standards followed to insure uniform and high quality. Last year visitors came from all of the 48 states and from many foreign countries, and the total number was the greatest in history. Among the visitors were many stockholders who expressed their interest in seeing the Company at work. The Directors hope that many more persons who are owners of or are interested in the Company's securities will find an opportunity to visit the Company's factories and offices.

By order of the Board of Directors.

Chairman

President

January 22, 1952

ASSETS

CURRENT ASSETS:		
Cash	$ 18,176,739.35	
Accounts receivable (net) for merchandise sold	26,777,806.43	
Leaf tobacco, supplies, manufactured product, etc.—at average cost	495,691,499.20	
TOTAL CURRENT ASSETS		$540,646,044.98
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	54,827,781.34	
Less depreciation, obsolescence, etc.	22,076,019.77	
NET REAL ESTATE, MACHINERY AND EQUIPMENT		32,751,761.57
OTHER ASSETS:		
Investments in non-competitive companies	25,000.00	
Sundry receivables and deposits	2,443,062.06	
Brands, trade-marks and good will	1.00	
Prepaid expenses and deferred charges	2,020,103.03	
TOTAL OTHER ASSETS		4,488,166.09
		$577,885,972.64

BACCO COMPANY
December 31, 1951

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	$ 5,647,302.61	
Notes payable	55,500,000.00	
Funded debt due within one year	5,000,000.00	
Accrued Federal and state taxes—(Note A)	60,593,966.89	
Sundry accrued accounts	1,011,113.94	
TOTAL CURRENT LIABILITIES		$127,752,383.44
FUNDED DEBT (Note B):		
2½% Promissory Notes (due 1953-1972)	78,000,000.00	
3% Debentures, due October 1, 1973	57,000,000.00	
TOTAL FUNDED DEBT		135,000,000.00
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100:		
Authorized and issued 750,000 shares		
3.60% Series	49,000,000.00	
4.50% Series	26,000,000.00	
Common Stock—Par $10:		
Authorized and issued 566,122 shares	5,661,220.00	
New Class B Common Stock—Par $10 (Note C):		
Authorized 15,000,000 shares		
Issued 9,433,878 shares	94,338,780.00	
	175,000,000.00	
Earnings Retained for requirements of the business (Note D)	140,133,589.20	
TOTAL CAPITAL AND EARNINGS RETAINED		315,133,589.20
		$577,885,972.64

Statement of Earnings

Year Ended December 31, 1951

NET SALES		$814,216,968.55
OTHER INCOME:		
Interest, dividends and sundry		14,190.62
TOTAL INCOME		814,231,159.17
LESS:		
Cost of goods sold and other charges including selling and general expenses, but exclusive of items below	$713,505,242.33	
Provision for depreciation and obsolescence	2,166,624.11	
Interest charges	4,655,687.93	
Funded debt expense amortization	48,211.11	
Provision for participation in profits under Article XII of By-Laws payable to 1,831 officers and employees	1,677,738.00	
Provision for Federal and state taxes on income	60,060,354.40	
TOTAL INCOME DEDUCTIONS		782,113,857.88
NET EARNINGS FOR YEAR		$ 32,117,301.29
Dividends paid on Preferred Stock		$ 2,934,000.00
NET EARNINGS APPLICABLE TO COMMON STOCKS		29,183,301.29

Statement of Earnings Retained

Year Ended December 31, 1951

EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at beginning of year		$130,666,001.91
ADD:		
Net Earnings for year		32,117,301.29
		162,783,303.20
DEDUCT:		
Cash dividends on—		
Preferred Stock		
3.60% Series	$ 1,764,000.00	
4.50% Series	1,170,000.00	
Common stocks at $2.00 per share, consisting of four quarterly dividends of 50c each	19,715,714.00	22,649,714.00
EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at end of year (Note D)		$140,133,589.20

Notes To Financial Statements

Note A: In 1949 the Bureau of Internal Revenue issued a ruling to the effect that payments made under Article XII, as amended June 29, 1949, of the By-Laws of the Company constitute compensation for personal services rendered and, as such, would be deductible to the extent that such compensation, when added to all other considerations paid to individual officers and employees, constitutes reasonable compensation for services rendered. This ruling was revoked under date of November 13, 1951. Income and excess profits tax returns were made for the years 1949 and 1950 in reliance on the ruling issued in 1949. No deficiency assessments for the years 1949 and 1950 have been made by the Bureau and if such assessments should be made it is the intention of the Company to contest them. It is estimated that such deficiency assessments, for which no reserve has been provided, would if made amount to approximately $1,000,000 for 1949 and $1,200,000 for 1950. In the last quarter of 1951 the tax provision for that year was adjusted in an amount estimated to be sufficient should the Bureau's action be sustained.

Note B: The aggregate principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1952-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

Note C: Of the authorized but unissued shares of New Class B Common Stock, 566,122 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,433,878 shares of issued New Class B Common Stock, 141,530½ shares are held for exchange pursuant to said Exchange Option to Holders of Common Stock.

Note D: So long as either of its 2½% Promissory Notes or any of its 3% Debentures remain outstanding the Company is obligated not to declare dividends (other than stock dividends) and not to make payment on account of purchase, redemption or retirement of any shares of its stock to an extent where such dividend or payment plus the aggregate of all such prior dividends and payments made from January 1, 1946, shall exceed an amount equal to the Net Income of the Company from January 1, 1946, to and including the date of such declaration or payment plus $15,000,000, but such limitation does not restrict declaration or payment of dividends on Preferred Stock. At December 31, 1951, the part of Earnings Retained not affected by this restriction was $92,126,320.41.

Report of Independent Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY,
ITS DIRECTORS AND STOCKHOLDERS:

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1951, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

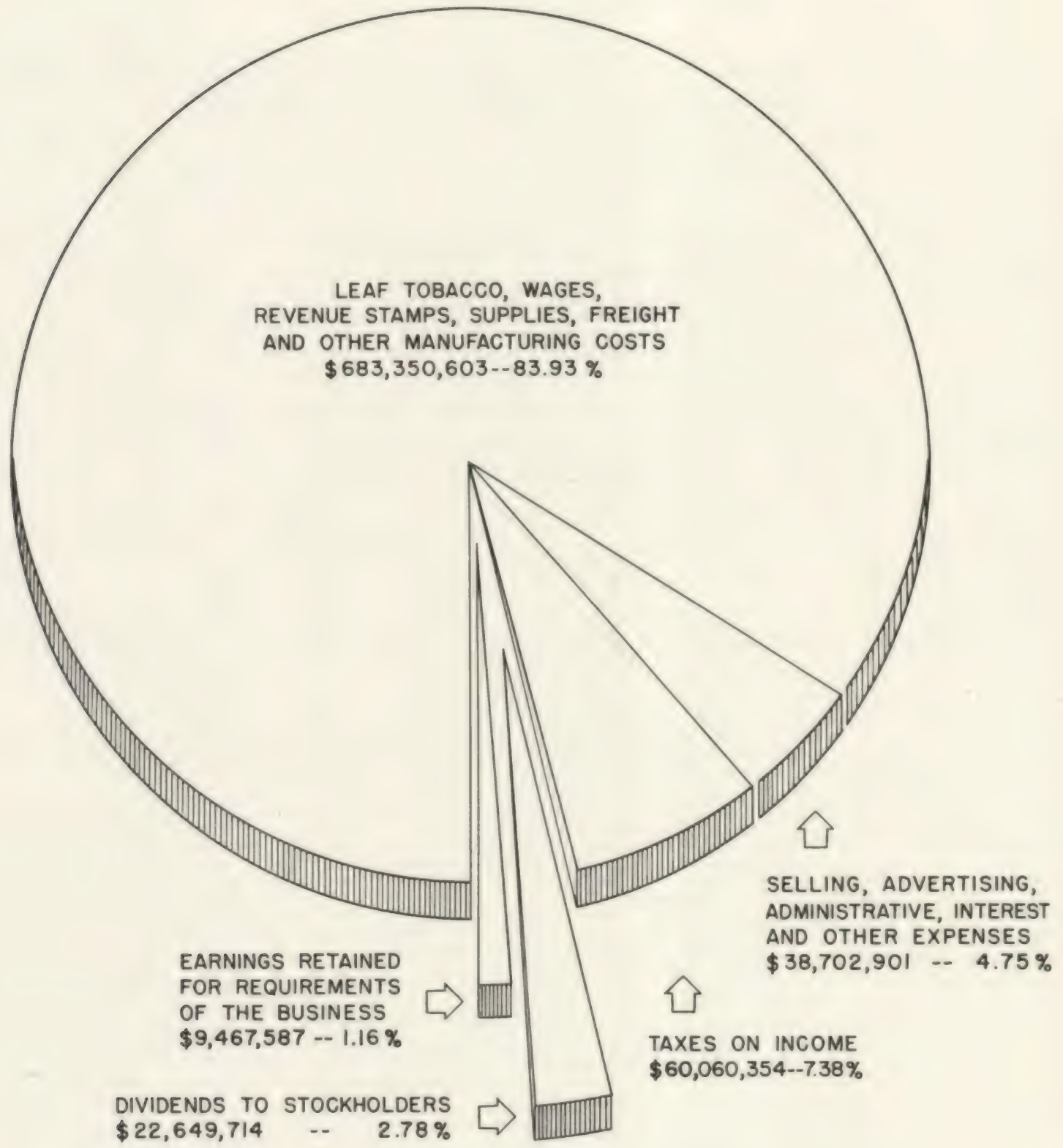
In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1951, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants.

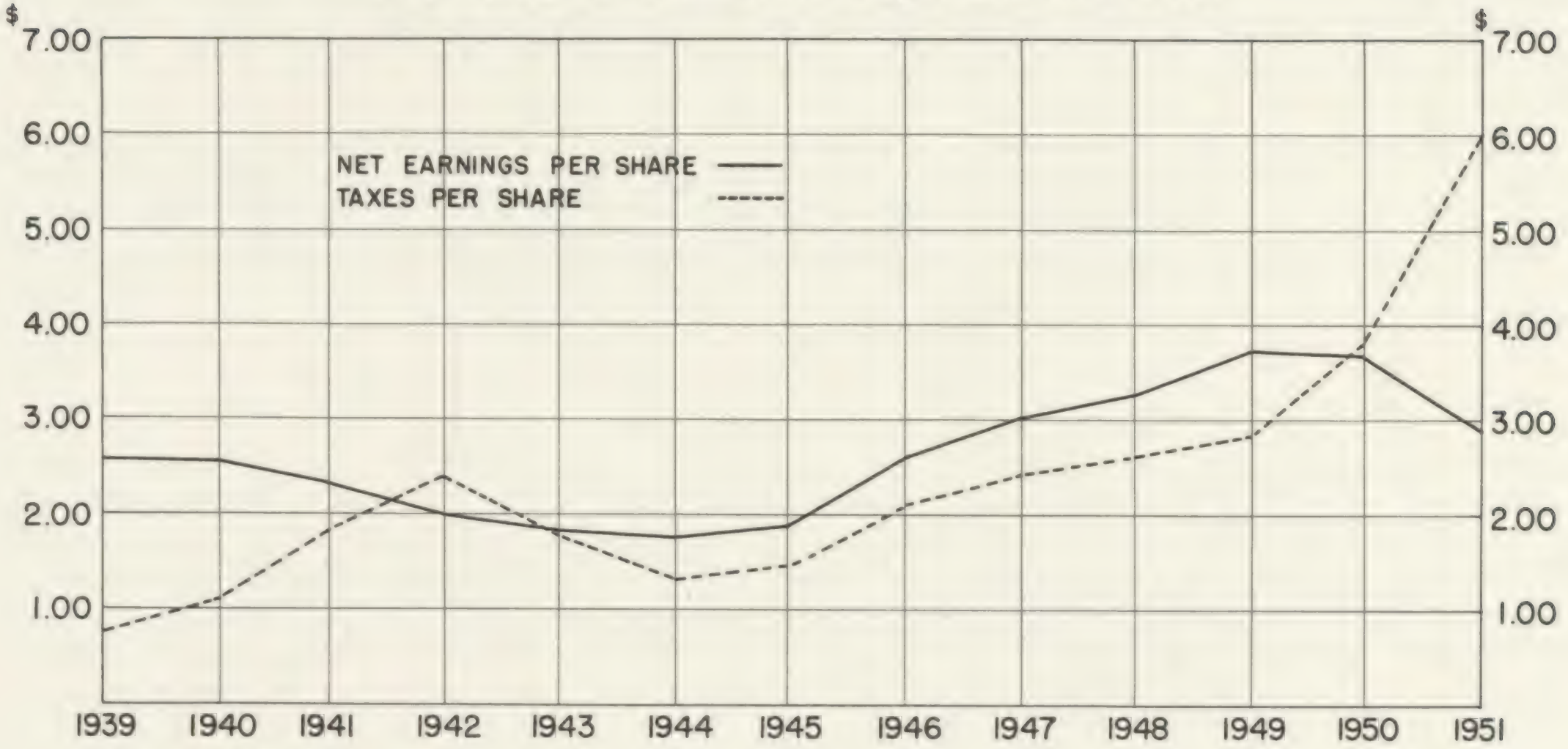
Winston-Salem, N. C.
January 21, 1952.

DISPOSITION OF THE COMPANY'S TOTAL INCOME IN 1951



COMPARISON OF NET EARNINGS AND TAXES BASED ON INCOME

PER SHARE OF COMMON STOCKS, YEARS 1939 - 1951



Board of Directors

JAS. A. GRAY.....*Chairman Board of Directors*

JOHN C. WHITAKER.....*President*

R. C. HABERKERN.....*Vice-President*

P. FRANK HANES.....*Vice-President*

E. A. DARR.....*Vice-President*

H. N. HARDY.....*Vice-President*

BOWMAN GRAY.....*Vice-President*

W. J. CONRAD.....*Secretary*

A. H. GALLOWAY.....*Treasurer*

S. M. SCOTT.....*Comptroller*

W. T. SMITHER.....*Manager Advertising Department*

R. G. VALLANDINGHAM.....*Superintendent of Leaf Buying*

H. H. RAMM.....*Solicitor and Assistant to Chairman of Board*

H. S. KIRK.....*Superintendent of Manufacturing*

S. B. HANES, JR.....*Superintendent of Leaf Processing*

TRANSFER AGENTS

The Chase National Bank
of the City of New York
11 Broad Street,
New York, N. Y.

The First National Bank
of Jersey City
1 Exchange Place,
Jersey City, N. J.

REGISTRAR

The Hanover Bank
70 Broadway, New York, N. Y.

Principal Brands of the Company

Cigarettes

CAMEL CIGARETTES

CAVALIER CIGARETTES

Smoking Tobaccos

PRINCE ALBERT

GEORGE WASHINGTON • OUR ADVERTISER

STUD • TOP

Chewing Tobaccos

BROWN'S MULE • DAYS WORK

APPLE SUN CURED

REYNOLDS' NATURAL LEAF

REYNOLDS' SUN CURED

CUP • SCHNAPPS • HONEY CUT

STRATER'S NAT. LEAF TWIST

WINESAP • MICKY TWIST

CASH VALUE • TOP